

Message Text

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ACTION EUR-25

INFO OCT-01 IO-14 ISO-00 AID-20 CEA-02 CIAE-00 COME-00

EB-11 FRB-02 INR-10 NSAE-00 RSC-01 CIEP-02 SPC-03

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FM USMISSION BRUSSELS

TO SECSTATE WASHDC 5909

INFO AMEMBASSY BONN

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AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION GENEVA

USMISSION OECD PARIS

C O N F I D E N T I A L EC BRUSSELS 6010

PASS TREASURY, FRB AND CEA

E.O. 11652: GDS

TAGS: EFIN, EEC

SUBJ: EC MONETARY COMMITTEE DISCUSSION OF RESERVE

POOLING -- NEXT MEETING OF EC COUNCIL (FINANCE MINISTERS)

REF: EC BRUSSELS 4614

1. SUMMARY. ACCORDING TO PERMANENT REPRESENTATION
SOURCES HERE, THE EC MONETARY COMMITTEE AT A MEETING
ON OCTOBER 10 CRITICIZED THE EC COMMISSION'S PRO-
POSALS ON RESERVE POOLING AS TECHNICALLY INADEQUATE
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AND EXPRESSED THE VIEW THAT, THOUGH DESIRABLE AS A

LONG-TERM GOAL, POOLING OF RESERVES WAS NOT NECESSARY FOR THE DEVELOPMENT OF CREDITS IN SUPPORT OF INTERNAL EC MONETARY ARRANGEMENTS. THE MEMBERS OF THE COMMITTEE ALSO REPORTEDLY AGREED THAT RULE 0-3 OF THE IMF BY-LAWS (WHICH GOVERNS MAINTENANCE OF VALUE OF THE SDR) SHOULD BE SUSPENDED. IN A SEPARATE DEVELOPMENT OCTOBER 19, THE EC COMMISSION PUBLICALLY EXPRESSED DISAPPOINTMENT AT CONTINUED MEMBER STATE INABILITY TO AGREE ON A DATE FOR THE NEXT EC COUNCIL (FINANCE MINISTERS) MEETING. END SUMMARY.

2. ACCORDING TO OUR SOURCES, THE MONETARY COMMITTEE'S DISCUSSION WAS BASED ON A REPORT OF THE THERON GROUP (A TECHNICAL SUBCOMMITTEE OF THE CENTRAL BANK GOVERNORS' COMMITTEE) IN WHICH THE EC CENTRAL BANK GOVERNORS EXPRESSED SERIOUS RESERVATIONS ON THE EC COMMISSION'S PROPOSALS ON RESERVE POOLING. (THESE PROPOSALS WERE DESCRIBED IN REFTEL.) OUR SOURCES SAID THAT THE GENERAL VIEW OF THE MEMBERS OF THE MONETARY COMMITTEE WAS THAT ON THE ONE HAND, THE COMMISSION'S PROPOSALS WERE TECHNICALLY INADEQUATE AND ON THE OTHER, THAT POOLING OF RESERVES, WHILE DESIRABLE AS A LONG-TERM OBJECTIVE, WAS IN NO SENSE URGENT SINCE DEVELOPMENT OF CREDIT FACILITIES IN SUPPORT OF INTERVENTIONS WITHIN THE EC MONETARY SYSTEM COULD BE ACCOMPLISHED AS WELL BY OTHER MEANS.

3. THE COMMITTEE'S DISCUSSIONS REPORTEDLY STRESSED THE POINT THAT THE COMMISSION'S PROPOSALS LINKED TWO PROBLEMS THAT SHOULD BE VIEWED SEPARATELY -- FIRST, THE SETTLEMENT OF DEBTS ARISING FROM EXTENSION OF CREDITS UNDER THE 1.4 BILLION UNIT OF ACCOUNT SHORT-TERM SUPPORT FACILITIES AND SECOND, THE NEED (IN THE COMMISSION'S VIEW) FOR A CUSHION IN THE FORM OF POOLED RESERVES IN SUPPORT OF THIS SHORT-TERM FACILITY. THE MEMBERS OF THE COMMITTEE THOUGHT THAT SEPARATE BILATERAL SETTLEMENTS WOULD PROVIDE ADEQUATE SUPPORT. THEY ALSO CONSIDERED THAT EXPANSION OF THE SHORT-TERM SUPPORT FACILITY FROM 1.4 BILLION UAC TO SIX TIMES THAT AMOUNT, AS PROPOSED BY THE COMMISSION, CONFIDENTIAL

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WOULD MAKE RESERVE POOLING UNNECESSARY. IT WAS NOTED THAT SUCH AN EXPANSION OF SHORT-TERM CREDITS COULD BE VIEWED AS EQUIVALENT TO RESERVE POOLING.

4. ACCORDING TO OUR SOURCES, SOME MEMBER STATES WERE COMPLETELY NEGATIVE ON RESERVE POOLING AND THOSE WHICH EXPRESSED WILLINGNESS TO GO ALONG WITH IT, SUCH AS ITALY AND THE UK, DID NOT BELIEVE IT WAS URGENT. THE FRENCH

ATTITUDE WAS SAID TO BE MORE POSITIVE THAN IN THE PAST ON BOTH RESERVE POOLING AND EXPANSION OF SHORT-TERM CREDIT, BUT THE FRENCH MADE THEIR SUPPORT CONDITIONAL ON THE UK, ITALY AND IRELAND REJOINING THE SNAKE.

5. THE GERMANS WERE REPORTEDLY LESS RELUCTANT THAN IN THE PAST TO ACCEPT AN INCREASE IN SHORT-TERM MONETARY SUPPORT BUT WERE STILL OPPOSED TO RESERVE POOLING. THEY THOUGHT IT PREFERABLE TO DEVELOP SWAP AGREEMENTS BETWEEN THE MEMBER STATES. THE DUTCH WERE UNENTHUSIASTIC ABOUT EITHER RESERVE POOLING OR AN EXPANSION OF SHORT-TERM FACILITIES.

6. WE UNDERSTAND MEMBERS OF THE COMMITTEE MADE THE FURTHER POINT THAT THE POOLING OF GOLD AND SDRS WAS IN ANY CASE IMPOSSIBLE PENDING RESOLUTION OF THE SDR VALUATION PROBLEM AND THE ROLE OF GOLD IN A NEW INTERNATIONAL MONETARY SYSTEM AND THAT THE POOLING OF DOLLARS ALONE WOULD SERVE NO PURPOSE IN TERMS OF COMMUNITY MONETARY ARRANGEMENTS (PRESUMABLY BECAUSE THE DOLLAR IS NOT BEING USED AS AN INTERVENTION CURRENCY TO MAINTAIN THE SNAKE).

7. DESPITE THE RESERVATIONS ON RESERVE POOLING AS EXPRESSED IN THE THERON GROUP REPORT AND IN THE MONETARY COMMITTEE, OUR SOURCES BELIEVE THAT AN EFFORT WILL BE MADE AT THE MINISTERIAL LEVEL TO FIND A FACE-SAVING FORMULA THAT WOULD APPEAR RESPONSIVE AT LEAST IN A POLITICAL SENSE TO THE MANDATE OF THE OCTOBER 1972 SUMMIT AS IT RELATED TO RESERVE POOLING AND SHORT-TERM MONETARY SUPPORT.

8. OUR SOURCES ALSO INFORMED US THAT THE MONETARY
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COMMITTEE REACHED AGREEMENT THAT THE 0-3 RULE OF THE IMF BY-LAWS ON THE MAINTENANCE OF VALUE OF THE SDR SHOULD BE SUSPENDED. THIS POSITION WILL BE COMMUNICATED TO THE IMF. THE COMMUNITY WISHES TO "UNFREEZE" SDRS IN INTRA-EC SETTLEMENTS AND BELIEVES THE MAINTENANCE OF VALUE CLAUSE, ADOPTED UNDER A FIX-RATE SYSTEM, MAKES NO SENSE SO LONG AS THE DOLLAR IS FLOATING VIS-A-VIS EC CURRENCIES.

9. IN A SEPARATE DEVELOPMENT OCTOBER 19, THE EC COMMISSION PUBLICALLY EXPRESSED DISAPPOINTMENT AT CONTINUED MEMBER STATE INABILITY TO AGREE ON A DATE FOR THE NEXT EC COUNCIL (FINANCE MINISTERS) MEETING. (THE MEETING HAD BEEN SCHEDULED FOR OCTOBER 25-26.) THIS SITUATION SYMBOLIZES DIFFICULTIES THE COMMUNITY IS

ENCOUNTERING IN COMING TO GRIPS WITH THE ISSUES AS THE SUMMIT
TARGET DATE FOR THE SECOND STAGE OF ECONOMIC AND MONETARY UNION
DRAWS NEAR. GREENWALD

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